

September 12, 2001

Effects of Recent Events on UC Investments

As our nation passes through this time of immeasurable sorrow and grief, we extend our deepest sympathy to the families of those who have lost their lives and to the many victims who have been injured in this senseless attack. We are saddened that these vicious acts have tragically altered the lives of so many innocent people and, indeed, the life of our country.

In addition to the terrible human costs of this week's events, many are concerned about their short- and long-term implications for the American economy. In other crises affecting the markets in the recent past—the market crash of 1987 and the Gulf War in 1991—our market system has prevailed. With the threat of the Gulf War looming in the summer of 1990, the S&P 500 fell 15% and the NASDAQ Composite Index fell 23% in two months. However, the next six months saw the S&P 500 rally by 27% and the NASDAQ Composite Index rally by 41%.

Security prices may experience some short-term volatility when the U.S. markets re-open. In saving for our long-term needs, we should focus on long-term economic conditions and not on the short-term effects of such acts as this terrorist attack. Such events typically have little long-lasting economic effect on the consumer or world economies. This is not to diminish the magnitude of the human tragedy of terrorism, but to put its economic reverberations into perspective.

I understand concerns you may have about the stability of the University's funds during this trying time. Please be assured that we are working hard to ensure that UC's long-term investments are secure and that we will continue to manage our investments with vigilance and care.

Sincerely,

David H. Russ
Treasurer and Vice President for Investments
University of California